

File No. 190572

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date June 14, 2019

Board of Supervisors Meeting Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
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| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Form 126 – Ethics Commission |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
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Completed by: Victor Young Date June 7, 2019

Completed by: _____ Date _____

1 [Appropriation - Revenue Bonds and Water Revenues - Water Capital Improvements -
2 \$26,071,000 - FY2019-2020 - De-Appropriation and Re-Appropriation - Water System
3 Improvement Program - \$33,997,225 - FY2019-2020]

4 Ordinance appropriating a total of \$26,071,000 of proceeds from Revenue Bonds and
5 water revenues for the San Francisco Public Utilities Commission (SFPUC) Water
6 Enterprise's Capital Improvement Program for FY2019-2020 at \$26,071,000; de-
7 appropriating and re-appropriating \$33,997,225 of Water System Improvement Program
8 appropriations for FY2019-2020, and placing \$20,571,000 of Revenue Bond proceeds by
9 project on Controller's reserve subject to the Controller's certification of funds
10 availability, including proceeds of indebtedness, and for construction related
11 expenditures (excluding program management, planning and design) for these
12 projects, as applicable, is also subject to the prior occurrence of the SFPUC's and the
13 Board of Supervisors' discretionary adoption of California Environmental Quality Act
14 findings for projects, following review and consideration of completed project related
15 environmental analysis, where required.

16
17 Note: **Unchanged Code text and uncodified text** are in plain Arial font.
18 **Additions to Codes** are in *single-underline italics Times New Roman font*.
19 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.
20 **Board amendment additions** are in double-underlined Arial font.
21 **Board amendment deletions** are in ~~strikethrough Arial font~~.
22 **Asterisks (* * *)** indicate the omission of unchanged Code
23 subsections or parts of tables.

24 Be it ordained by the People of the City and County of San Francisco:
25

1 Section 1. The sources of funding outlined below are herein appropriated to reflect the funding
 2 available for Fiscal Year 2019-2020.

3
 4 **SOURCES Appropriation**

| Fund / | Project & Activity / | Account | Description | Amount |
|------------------------------------|--------------------------|---------------------|---------------|---------------------|
| Department ID | Authority | | | |
| 26601 Water Capital | 10026501_ 0001 | 480111 Proceeds | Proceeds from | \$20,571,000 |
| Bond Fund / | Water Bond/Commercial | from Sale of Bonds- | Sale of Bonds | |
| 232396 WTR01 | Paper Expense - | Face Amount | | |
| Administration | Financing Costs / 17731 | | | |
| | UB Non-WSIP Water | | | |
| | Bond-CP Exp | | | |
| 25960 WTR Revenue | 10026521_ 0001 Puc- | 495030 | Water | \$5,500,000 |
| Continuing / 232396 | Water Inactive Project - | ITI Fr 5W- Water | Enterprise | |
| WTR01 Administration | Puc-Water Inactive | Department Fd | Revenue | |
| | Project / | | | |
| | 15680 UW WTR | | | |
| | Revenue Transfer | | | |
| Total SOURCES Appropriation | | | | \$26,071,000 |

1 Section 2. The uses of funding outlined below are herein appropriated in account 567000
 2 Buildings Structures and Improvements, 584030 Capital Renewal Projects, 581130 Internal
 3 Audits and 573110 Bond Issuance Cost, and reflects the projected uses of funding to support
 4 the Water Capital Improvement Program at the San Francisco Public Utilities Commission for
 5 Fiscal Year 2019-2020.

6
 7 **USES Appropriation**

| Fund / | Project & Activity / | Account | Description | Amount |
|---------------------|--------------------------|---------|-----------------------|--------------|
| Department ID | Authority | | | |
| 26601 Water Capital | 10015089_0001 | 567000 | Water Supply & | \$18,000,000 |
| Bond Fund / | Water Supply & Storage | | Storage (Regional) | |
| 232421 WTR0501 | / 15492 UW Water | | | |
| WST Admin | Supply & Storage | | | |
| 25960 Revenue | 10034505_0001 Water | 584030 | Water Supply Projects | \$5,500,000 |
| Continuing / | Supply Projects Local - | | (Local) | |
| 232406 WTR0304 | Water Supply Projects / | | | |
| CDD Engineering | 20711 Water | | | |
| | Diversification Projects | | | |

| 1 | Fund / | Project & Activity / | Account | Description | Amount |
|----|---------------------------------|-----------------------|-----------------|-----------------------|---------------------|
| 2 | Department ID | Authority | | | |
| 3 | 26601 Water Capital | 10026501_0001 Water | 573110 | Financing Cost | \$2,513,715 |
| 4 | Bond Fund / | Bond/Commercial Paper | Bond Issuance | | |
| 5 | 232396 WTR01 | Expense - Financing | Cost- | | |
| 6 | Administration | Costs /17731 UB Non- | Unamortized | | |
| 7 | | WSIP Water Bond-CP | | | |
| 8 | | Exp | | | |
| 9 | | | | | |
| 10 | 26601 Water Capital | 10026501_0001 Water | 581130 | City Services Auditor | \$47,000 |
| 11 | Bond Fund / | Bond/Commercial Paper | GF-CON- | | |
| 12 | 232396 WTR01 | Expense - Financing | Internal Audits | | |
| 13 | Administration | Costs / 17731 UB Non- | | | |
| 14 | | WSIP Water Bond-CP | | | |
| 15 | | Exp | | | |
| 16 | | | | | |
| 17 | 26601 Water Capital | 10026501_0001 Water | 567000 | Revenue Bond | \$10,285 |
| 18 | Bond Fund / | Bond/Commercial Paper | Blds; | Oversight Committee | |
| 19 | 232396 WTR01 | Expense - Financing | Structures & | | |
| 20 | Administration | Costs / 17731 UB Non- | Improvements | | |
| 21 | | WSIP Water Bond-CP | | | |
| 22 | | Exp | | | |
| 23 | Total USES Appropriation | | | | \$26,071,000 |
| 24 | | | | | |
| 25 | | | | | |

1 Section 3. Of the above appropriated amount, \$47,000, representing 0.2% of the expenditure
2 budget net of bond financing and audit costs, is to be allocated and available to support the
3 Controller's Audit Fund, pursuant to Charter Appendix F1.113; and \$10,285, representing
4 0.05% of gross bond proceeds is to be allocated and available to support the San Francisco
5 Public Utilities Commission Revenue Bond Oversight Committee, pursuant to Administrative
6 Code Section 5A.31.

7
8 Section 4: \$20,571,000 of the appropriation is hereby placed on Controller's Appropriation
9 Reserve by project. Release of appropriation reserves by the Controller is subject to the
10 Controller's certification of funds availability, including A) proceeds of indebtedness; B) receipt
11 of commercial paper proceeds used as interim financing until issuance of revenue bonds; or C)
12 availability of commercial paper capacity authorizing the San Francisco Public Utilities
13 Commission to issue commercial paper as interim financing for bond-funded capital projects
14 and receipt from SFPUC of verification of available commercial paper capacity; and for
15 construction related expenditures (excluding program management, planning and design) for
16 these projects, as applicable, is also subject to the prior occurrence of the SFPUC's and the
17 Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA)
18 Findings for projects, following review and consideration of completed project related
19 environmental analysis, where required.

20
21 Section 5. Associated Bond financing costs up to \$2,513,715 is also hereby appropriated,
22 including but not limited to, issuance costs, debt service reserve, capitalized interest, rating
23 agency, and disclosure costs, all on Controller's reserve pending receipt of bond proceeds.
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1 Section 6. The uses of funding outlined below are herein appropriated in account 567000
 2 Buildings Structures and Improvements and reflects the projected uses of funding to
 3 support the Water System Improvement Program at the San Francisco Public Utilities
 4 Commission for Fiscal Year 2019-2020.

5
 6 **USES De - Appropriation**

| Fund / | Project & Activity / | Account | Description | Amount |
|----------------------|----------------------|--------------------|--------------|---------------|
| Department ID | Authority | | | |
| 26416 WTR CPF | 10015487_0002 | 567000 | San Joaquin | (\$540,463) |
| 2019 Regional Bond / | San Joaquin Water | Blds; Structures & | Water System | |
| 232146 PUB0402 | Sys Improve - | Improvements | Improvement | |
| Project Management | Project Closeout / | | | |
| | 15674 UW San | | | |
| | Joaquin Water Sys | | | |
| | Impro | | | |
| 26416 WTR CPF | 10015492_0001 | 567000 | Sunol Valley | (\$4,000,000) |
| 2019 Regional Bond / | Sunol Valley Water | Blds; Structures & | Water System | |
| 232421 WTR0501 | System Impr - | Improvements | Improvement | |
| WST Admin | Budget Control / | | | |
| | 15679 UW Sunol | | | |
| | Valley Water | | | |
| | System I | | | |

| 1 | Fund / | Project & Activity / | Account | Description | Amount |
|----|----------------------|----------------------|--------------------|------------------|----------------|
| 2 | Department ID | Authority | | | |
| 3 | 26230 WTR CPF | 10015492_0001 | 567000 | Sunol Valley | (\$16,865,928) |
| 4 | 2002 Prop E Bond / | Sunol Valley Water | Blds; Structures & | Water System | |
| 5 | 232396 WTR01 | System Impr - | Improvements | Improvement | |
| 6 | Administration | Budget Control / | | | |
| 7 | | 15679 UW Sunol | | | |
| 8 | | Valley Water | | | |
| 9 | | System I | | | |
| 10 | | | | | |
| 11 | 26230 WTR CPF | 10015484_0002 | 567000 | UW Bay Division | (\$6,060,000) |
| 12 | 2002 Prop E Bond / | UW Bay Division | Blds; Structures & | Pipeline Upgrade | |
| 13 | 232421 WTR0501 | Pipeline Upgra - | Improvements | | |
| 14 | WST Admin | Budget Control / | | | |
| 15 | | 15672 UW Bay | | | |
| 16 | | Division Pipeline | | | |
| 17 | | Upgra | | | |
| 18 | | | | | |
| 19 | 26416 WTR CPF | 10015484_0001 | 567000 | UW Bay Division | (\$1,000,000) |
| 20 | 2019 Regional Bond / | UW Bay Division | Blds; Structures & | Pipeline Upgrade | |
| 21 | 232146 PUB0402 | Pipeline Upgra - | Improvements | | |
| 22 | Project Management | Wsip Closeout-Bay | | | |
| 23 | | Division / 15672 | | | |
| 24 | | UW Bay Division | | | |
| 25 | | Pipeline Upgra | | | |

| | Fund / | Project & Activity / | Account | Description | Amount |
|----|-------------------------------------|----------------------|--------------------|------------------|-----------------------|
| | Department ID | Authority | | | |
| 3 | 26220 WTR CPF | 10015484_0002 | 567000 | UW Bay Division | (\$1,545,645) |
| 4 | 2002 Prop A Bond / | UW Bay Division | Blds; Structures & | Pipeline Upgrade | |
| 5 | 232421 WTR0501 | Pipeline Upgra - | Improvements | | |
| 6 | WST Admin | Budget Control / | | | |
| 7 | | 15672 UW Bay | | | |
| 8 | | Division Pipeline | | | |
| 9 | | Upgra | | | |
| 11 | 26220 WTR CPF | 10015486_0001 | 567000 | Peninsula Water | (\$3,985,189) |
| 12 | 2002 Prop A Bond / | Peninsula Water | Blds; Structures & | System | |
| 13 | 232396 WTR01 | System Improve - | Improvements | Improvement | |
| 14 | Administration | Budget Control / | | | |
| 15 | | 15673 UW | | | |
| 16 | | Peninsula Water | | | |
| 17 | | System Impr | | | |
| 21 | Total USES De- Appropriation | | | | (\$33,997,225) |

1 **USES Re - Appropriation**

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| Fund / | Project & Activity / | Account | Description | Amount |
|----------------------|----------------------|--------------------|-------------|-------------|
| Department ID | Authority | | | |
| 26220 WTR CPF | 10015241_0007 | 567000 | Regional | \$5,530,834 |
| 2002 Prop A Bond / | Regional | Blds; Structures & | Groundwater | |
| 232147 PUB0403 | Groundwater | Improvements | Storage | |
| Construction Mgmt | Storage - Budget | | | |
| | Control / 15557 UW | | | |
| | Regional | | | |
| | Groundwater | | | |
| | Storag | | | |
| 26416 WTR CPF | 10015241_0007 | 567000 | Regional | \$5,540,463 |
| 2019 Regional Bond / | Regional | Blds; Structures & | Groundwater | |
| 232147 PUB0403 | Groundwater | Improvements | Storage | |
| Construction Mgmt | Storage - Budget | | | |
| | Control / | | | |
| | 15557 UW Regional | | | |
| | Groundwater | | | |
| | Storag | | | |

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| 1 | Fund / | Project & Activity / | Account | Description | Amount |
|----|-------------------------------------|----------------------|--------------------|-------------|---------------------|
| 2 | Department ID | Authority | | | |
| 3 | 26230 WTR CPF | 10015241_0007 | 567000 | Regional | \$20,086,730 |
| 4 | 2002 Prop E Bond / | Regional | Blds; Structures & | Groundwater | |
| 5 | 232147 PUB0403 | Groundwater | Improvements | Storage | |
| 6 | Construction Mgmt | Storage - Budget | | | |
| 7 | | Control / 15557 UW | | | |
| 8 | | Regional | | | |
| 9 | | Groundwater | | | |
| 10 | | Storage | | | |
| 11 | | | | | |
| 12 | 26230 WTR CPF | 10034919_0001 | 567000 | System Wide | \$2,839,198 |
| 13 | 2002 Prop E Bond / | System Wide | Blds; Structures & | Regional | |
| 14 | 232147 PUB0403 | Regional - Budget | Improvements | | |
| 15 | Construction Mgmt | Control / | | | |
| 16 | | 15606 | | | |
| 17 | | UW Program | | | |
| 18 | | Management | | | |
| 19 | | Services | | | |
| 20 | | | | | |
| 21 | | | | | |
| 22 | Total USES Re- Appropriation | | | | \$33,997,225 |
| 23 | | | | | |
| 24 | | | | | |
| 25 | | | | | |

1 Section 7: The Controller is authorized to record transfers between funds and adjust the
2 accounting treatment of sources and uses appropriated in this ordinance as necessary to
3 conform to Generally Accepted Accounting Principles.
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11

12 APPROVED AS TO FORM:
13 DENNIS J. HERRERA, City Attorney

14 By: BD
15 BUCK DELVENTHAL
16 Deputy City Attorney

FUNDS AVAILABLE
BEN ROSENFELD, Controller

14 By: BR
15 BEN ROSENFELD
16 Controller

| | |
|--|---|
| <p>Items 1 and 2 Files 19-0571 and 19-0572</p> | <p>Department: Public Utilities Commission</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> | |
| <p>File 18-0571 is an ordinance amending Ordinance No. 143-18 to authorize an increase in the San Francisco Public Utilities Commission (SFPUC) authorization to sale tax-exempt and taxable Water Revenue Bonds by \$35,084,529 from \$478,440,136 to \$513,524,665 to finance water capital projects.</p> | |
| <p>File 19-0572 is an ordinance appropriating \$26,071,000 of Water Revenue Bond proceeds and water revenues for the San Francisco Public Utilities Commission (SFPUC) Water Enterprise; and de-appropriating and re-appropriating \$33,997,225 of Water System Improvement Program appropriations for FY 2019-20, totaling \$60,068,225.</p> | |
| <p style="text-align: center;">Key Points</p> | |
| <ul style="list-style-type: none"> • SFPUC owns and operates a municipal water supply, storage, and distribution system that provide drinking water to retail customers in the City, certain retail customers that are located outside of the City, and wholesale customers in Alameda County, Contra Costa County, and Santa Clara County. • Proposition E, approved by San Francisco voters in 2002, allows SFPUC to issue revenue bonds to pay for water capital projects. Proposition E did not set a cap on the amount of bonds that could be issued but requires a two-thirds vote by ordinance of the Board of Supervisors to authorize the issuance of bonds. The Board of Supervisors previously authorized the issuance and sale of \$4.2 billion in Water Revenue Bonds. • SFPUC's 10-Year Capital Plan provides for \$1.6 billion in Water Enterprise projects, of which \$763.2 million are regional water projects, \$736.1 million are local water projects, and \$125 million is for the Emergency Firefighting Water System. | |
| <p style="text-align: center;">Fiscal Impact</p> | |
| <ul style="list-style-type: none"> • According to the SFPUC's 10-Year Financial Plan for FY 2019-20 to FY 2028-29, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements. • SFPUC planned an 8.3 percent increase in water rates in FY 2019-20 and a 7.8 percent increase in water rates in FY 2020-21 to cover the Water Enterprise's operating and capital costs. | |
| <p style="text-align: center;">Recommendation</p> | |
| <ul style="list-style-type: none"> • Approve File 19-0571 and File 19-0572. | |

MANDATE STATEMENT

Charter Section 8B.124 states that the Public Utilities Commission is authorized to issue revenue bonds and other forms of indebtedness, when authorized by two-thirds vote of the Board of Supervisors, for Water Enterprise and Wastewater Enterprise capital projects.

Charter Section 5A.31(d) states that one-twentieth of one percent from the proceeds of each issuance or sale of public utility revenue bonds must be set aside for use by the Public Utilities Commission Revenue Bond Oversight Committee to cover the costs of Committee activities.

Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers that are located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County.

The SFPUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The regional water conveyance system includes: (a) the Hetch Hetchy System, comprised of the Hetch Hetchy Reservoir and associated pipelines; (b) the Alameda System, comprised of the San Antonio and Calaveras Reservoirs and associated pipelines including the Irvington Tunnel; and (c) the Peninsula System, comprised of the San Andreas and Crystal Springs Reservoirs and associated pipelines that connect the regional water conveyance system to the in-city distribution system. The in-city distribution system is a series of pipelines that distributes water from the regional water conveyance system to residences and retail businesses in the City.

The Public Utilities Commission annually adopts a 10-Year Capital Plan and 10-Year Financial Plan in accordance with Charter Section 8B.123. The 10-Year Financial Plan evaluates the SFPUC's revenue requirements for the Water Enterprise, Wastewater Enterprise and Hetch Hetchy Enterprise to fund operations, maintenance and capital investment activities. For FY 2019-20 to FY 2028-29, the 10-Year Capital Plan provides for \$1.6 billion in Water Enterprise projects, of which \$763.2 million are regional water projects, \$736.1 million are local water projects, and \$125 million is for the Emergency Firefighting Water System.

DETAILS OF PROPOSED LEGISLATION

File 19-0571 is an ordinance (1) amending Ordinance No. 143-18 to authorize an increase of the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness from \$478,440,136 to not-to-exceed \$513,524,665 to finance water capital projects; (2) authorizing the issuance of Water Revenue Refunding Bonds; (3) declaring the Official Intent of the Commission to reimburse itself; and (4) ratifying prior actions.

File 19-0572 is an ordinance (1) appropriating \$26,071,000 of Water Revenue Bond proceeds and water revenues for the SFPUC Water Enterprise's capital improvement program for FY 2019-20; (2) de-appropriating and re-appropriating \$33,997,225 of Water System Improvement Program appropriations for FY 2019-20; and (3) placing \$20,571,000 on Controller's Reserve pending certification of available funds and adoption of California Environmental Quality Act (CEQA) findings for specified projects.

File 19-0571: Water Revenue Bonds

The San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. According to SFPUC's Comprehensive Annual Financial Report, SFPUC had \$5.0 billion in outstanding Water Revenue Bonds as of June 30, 2018.

In June 2018, the Board of Supervisors authorized SFPUC to issue and sell not-to-exceed \$478,440,136 of Water Revenue Bonds (File No. 18-0451; Ordinance No. 143-18). Approval of the proposed ordinance (File 19-0571) would amend Ordinance No. 143-18 to increase the bonding authority by \$35,084,529 to \$513,524,665 to provide funds for additional capital projects for the Water Enterprise.

The proposed amended allocation of bond proceeds is shown in Table 1 below.

Table 1: Amended Allocation of \$513,524,665 in Water Revenue Bonds

| Use | Original | | Amendment | | Total |
|--|------------------------------------|--------------------------------------|------------------------------------|---|----------------------|
| | Water Enterprise (File 18-0451) | Hetch Hetchy Water (File 18-0450) | Water Enterprise (File 19-0571) | Hetch Hetchy Water (File 19-0545) ^a | |
| Capital Project Appropriation | \$329,219,969 | \$89,415,150 | \$18,000,000 | \$12,336,500 | \$448,971,619 |
| Financing Costs (14%) | 46,184,858 | 12,543,668 | 2,513,715 | 2,169,772 | 63,412,013 |
| City Services Auditor (0.2%) | 658,440 | 178,830 | 47,000 | -- | 884,270 |
| Revenue Bond Oversight Committee (0.05%) | 188,126 | 51,094 | 10,285 | 7,257 | 256,762 |
| Total | \$376,251,393 | \$102,188,742 | \$20,571,000 | \$14,513,529 | \$513,524,665 |

^a The appropriation of Hetch Hetchy Water Bond proceeds for the Mountain Tunnel project is discussed further in the Budget and Legislative Analyst report for Files 19-0545 and 19-0546.

Financing costs of \$63,412,013, equal to approximately 14 percent of the bond allocation to capital projects, are for issuance costs, debt service reserve, capitalized interest¹, bond counsel, and other costs.

File 19-0572: Appropriation, De-Appropriation, and Re-Appropriation to Water Enterprise

The proposed ordinance (File 19-0572) would appropriate bond proceeds and Water Enterprise revenues to regional water supply and storage projects and local water supply projects, as shown in Table 2 below. The supplemental appropriation would (1) add approximately \$13.5 million in FY 2019-20 funding for exploring alternative methods to expand regional water

¹ Capitalized interest is the accrual of interest prior to the receipt of revenues to repay the bonds.

sources including the Indirect Potable Reuse Project, Los Vaqueros expansion, and the Regional Desalination Project; (2) moving approximately \$4.5 million of the \$29.8 million budget for the Daly City Recycled Water Project from FY 2021-22 to FY 2019-20 to expedite project planning and design; (3) add \$5.5 million in new FY 2019-20 funding for exploring alternative methods to expand local water sources including the Eastside Water Purification Project; and (4) add approximately \$2.6 million in new FY 2019-20 funding for costs associated with the issuance of Water Revenue bonds.

The proposed ordinance would also de-appropriate funds from water system improvement projects that have been completed and closed out and re-appropriate the funds to the Regional Groundwater Storage Project and other system wide regional projects, as shown in Table 2.

Table 2: Proposed Water Enterprise Appropriation, De-Appropriation, and Re-Appropriation for FY 2019-20

| | FY 2019-20 |
|--|-----------------------|
| <u>Appropriation Sources</u> | |
| Bond Proceeds | \$20,571,000 |
| Water Enterprise Revenue | 5,500,000 |
| Total Sources | \$26,071,000 |
| <u>Appropriation Uses</u> | |
| Water Supply and Storage (Regional) | \$18,000,000 |
| Water Supply Projects (Local) | 5,500,000 |
| Financing Costs | 2,513,715 |
| City Services Auditor (0.2%) | 47,000 |
| Revenue Bond Oversight Committee (0.05%) | 10,285 |
| Total Uses | \$26,071,000 |
| <u>De-Appropriation</u> | |
| <i>Close Out of Water System Improvement Program</i> | |
| San Joaquin | (\$540,463) |
| Sunol Valley | (20,865,928) |
| Bay Division | (8,605,645) |
| Peninsula | (3,985,189) |
| Total De-Appropriation | (\$33,997,225) |
| <u>Re-Appropriation</u> | |
| Regional Groundwater Storage Project | \$31,158,027 |
| System Wide Regional | 2,839,198 |
| Total Re-Appropriation | \$33,997,225 |

Of the proposed appropriation of the \$26,071,000, the \$20,571,000 in bond proceeds would be placed on Controller's Reserve pending certification of available funds.

FISCAL IMPACT

SFPUC Debt Service Coverage Policy and Financial Plan

According to the SFPUC Comprehensive Annual Financial Report (CAFR), as of June 30, 2018, the SFPUC Water Enterprise had \$5.0 billion in outstanding debt, including \$4.9 billion in Water

Revenue Bonds and \$107.1 million in Certificates of Participation. The Water Enterprise's annual debt service payments in FY 2018-19 are \$286 million, increasing to \$307 million in FY 2019-20 and \$309 million in FY 2020-21.

According to SFPUC's bond covenants with bondholders and debt service coverage policy, the ratio of net revenues to annual debt service must meet the following minimum coverage:

- Indenture coverage²: net revenues equal to a minimum of 1.35 times annual debt service
- Current coverage³: net revenues equal to a minimum of 1.10 times annual debt service

According to the SFPUC's 10-Year Financial Plan for FY 2019-20 to FY 2028-29, annual debt service on Water Revenue Bonds and other Water Enterprise debt is within the SFPUC's debt service coverage policy requirements.

Water Rate Increases in FY 2019-20 and FY 2020-21

SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2018-19 is \$115, of which \$52 is water and \$63 is sewer. According to the FY 2019-20 to FY 2028-29 10-Year Financial Plan, SFPUC planned an 8.3 percent increase in water rates in FY 2019-20 and a 7.8 percent increase in water rates in FY 2020-21 to cover the Water Enterprise's operating and capital costs. The 10-Year Financial Plan estimates that the average monthly residential water bill will increase by \$4 in FY 2019-20, from \$52 in FY 2018-19 to \$56 in FY 2019-20; and by \$5 in FY 2020-21, from \$56 in FY 2019-20 to \$61 in FY 2020-21.

In April 2018, Public Utilities Commission adopted water rate increases that are consistent with the planned rate increases included in the adopted 10-Year Financial Plan. In accordance with Charter Section 8B.125, SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

POLICY CONSIDERATION

San Francisco voters approved Proposition E in 2002, authorizing the SFPUC to sell future Water Revenue Bonds subject to approval by ordinance of two-thirds of the Board of Supervisors. Proposition E did not set a maximum amount of the Water Revenue Bonds that could be authorized. As of June 4, 2019, the Board of Supervisors authorized \$4,234,873,289 in Water Revenue Bonds. To date, \$3,339,462,000 of the Proposition E bonds have been issued and sold with \$895,411,289 in authorized and unsold bonds. According to Mr. Carlos Jacobo, Budget Director at SFPUC, SFPUC anticipates selling additional Water Revenue Bonds in the first or second quarter of FY 2019-20 with exact amounts depending on project spending and the availability of commercial paper.

² Indenture coverage is the ratio of Net Revenues + Unappropriated Fund Balance to Annual Debt Service

³ Current coverage is the ratio of Net Revenues to Annual Debt Service

The proposed ordinance (File 19-0571) would authorize an additional \$35.1 million in Water Revenue Bonds for a total of over \$930 million in authorized and unsold Proposition E Water Revenue Bonds. The SFPUC's policy is to request authorization for bonds and other form of debt to fund new capital appropriations. Because water capital projects occur over a long period of time, projects and project financing change, which may result in previously authorized bonds no longer being needed.

RECOMMENDATION

Approve File 19-0571 and File 19-0572.

OFFICE OF THE MAYOR
SAN FRANCISCO



LONDON N. BREED
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Sophia Kittler
RE: Appropriation - Proceeds from Revenue Bonds and Water Revenues of \$26,071,000 for Water Capital Improvements and de-appropriation and re-appropriation of \$33,997,225 for Water System Improvement Program – FY 2019-2020
DATE: May 21, 2019

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Ordinance appropriating a total of \$26,071,000 of proceeds from Revenue Bonds and water revenues for the San Francisco Public Utilities Commission (SFPUC) Water Enterprise's Capital Improvement Program for FY2019-2020 at \$26,071,000, de-appropriating and re-appropriating \$33,997,225 of Water System Improvement Program appropriations for FY 2019-20, and placing \$20,571,000 of Revenue Bond proceeds by project on Controller's reserve subject to the Controller's certification of funds availability, including proceeds of indebtedness, and for construction related expenditures (excluding program management, planning and design) for these projects, as applicable, is also subject to the prior occurrence of the SFPUC's and the Board of Supervisors' discretionary adoption of California Environmental Quality Act (CEQA) Findings for projects, following review and consideration of completed project related environmental analysis, where required.

Should you have any questions, please contact Sophia Kittler at 415-554-6153.

BOARD OF SUPERVISORS
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